RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

SINCE 1958 •

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March 8, 1989 LETTER 1012

Feb. 24 DJIA 2245.54: PTI 2908; A-D Ratio -10.63
March 3 DJIA 2274.11; PTI 2920; A-D Ratio -10.22
Current Dow Yield: 3.70%; Dow P/E: 12.6;
Dow Book Value: 1009; Dow 200-day MA: 2132
DowPow: 755
Percentage of Undervalued Blue-chips: 20%

Question: How do you fight inflation while at the same time avoid a recession?

Answer: If you have the answer, write to Alan Greenspan -- he's pulling his hair out over the same question. So far, Greenspan and the Fed have been trying to head off inflation by inching up Fed funds while at the same time being accommodative -- by allowing the adjusted monetary base to rise steadily. But the January CPI figure was a shocker, showing an annualized inflation rate of 7.2%. That called for less talk and more action on the part of the Fed. Under pressure from all sides and accusations of "wimpiness," the Fed belatedly boosted the discount rate a mild 1/2% to 7%.

The Fed and the Bush administration are (properly) terrified of recession, since an economic contraction here would let the air out of an economy that more than anything else resembles a giant "debt-balloon." What happens next? Will we have another discount rate rise? Will we see an interest rate spike? Will our Japanese creditors stop buying our debt? Will a recession finally materialize? All of the above? None of the above? We'll know in due time.

In the meantime, the Bush honeymoon (if there ever was one) is history. Never in 200 years has a newly-elected President had a cabinet appointment turned down by Congress. Growled the *WSJ*, "The Democratic Party is attempting to substitute its authority and its political legitimacy for that of a newly elected President. With no prospect of occupying the White House, it is very much in the interests of the modern Democratic Congress to chop down American Presidents." Mmm, you can't help wondering how all this political infighting is going to work in terms of "solving" the budget deficit.

Question: Is this still a bear market?

Answer: For 17 months the market has been recovering from the 1987 crash. During that time business has boomed, factory usage has pushed to capacity and consumers and corporations have been spending their heads off. On February 8, 1989 the stock market hit a post-crash recovery high. But that high found the Dow still 335 points below its 1987 bull market peak of 2722.42 while the broad S&P 500 was still 32 points below its own bull market peak of 332.27.

Now, with inflation and interest rates rising, with the budget and trade deficits still chronic but unsolved, and with Mr. Bush's love affair with the Democratic Congress over, the stock market is hesitating.

And the question must be asked, "If this really is a bull market, as so many of today's optimists claim, how is it that NONE of the major averages have been able to record new highs?" The answer is this -- The optimism and good news occurred during the recovery phase of a primary bear market. At the 1987 bull market top, all the good news had been fully discounted.

Question: Russell, what's different about this post-crash bear market recovery compared to previous ones?

Answer: The bear wants to go down while taking the greatest number of stockholders with him. In 1930, following the 1929 crash, the Dow recovered 53% of its losses within a period of five months. By the end of that extraordinary five-month span, everybody was convinced that "a new bull market" had been born. Around that time the market turned down, the bear took over, and the real trouble began -- both in the stock market and the economy.

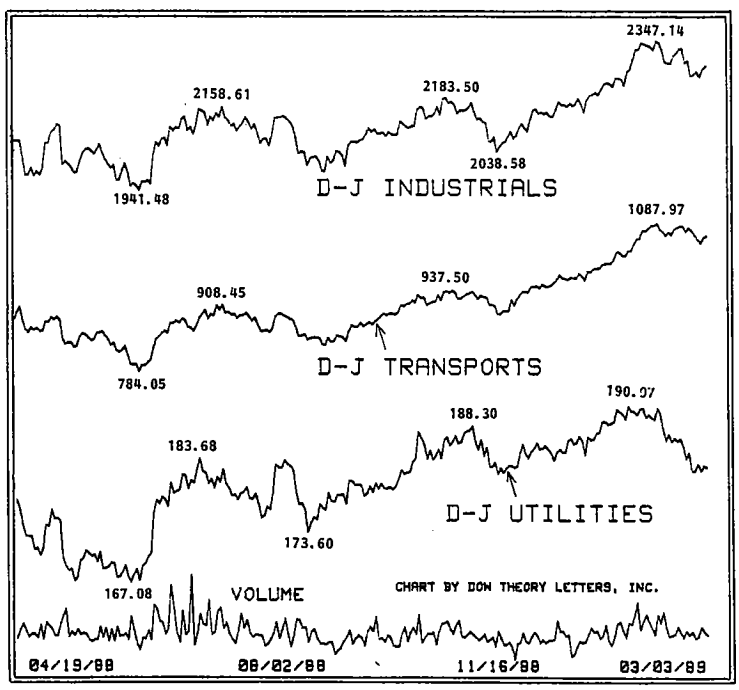
As for the present: Following the October 19, 1987 crash low, many people believed that "this is a repeat of 1929-30." The market had to rid them of that idea. It did it through time. The Dow and the market have spent 17 months recovering, and here during 1989 people are saying, "This has got to be a new bull market, because no bear market rally has ever lasted this long."

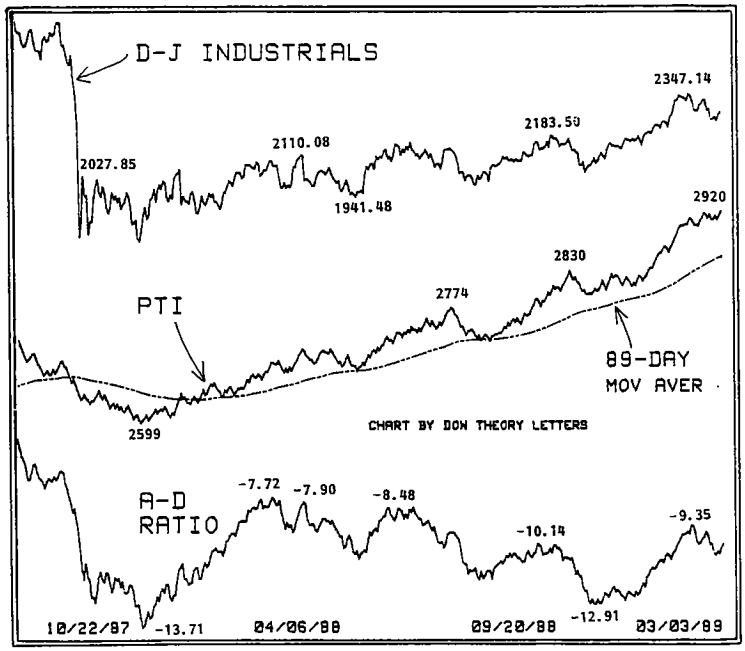
Since October 1987 I have stated repeatedly that "this bear market is fated to be extended, tedious, costly, and deceptive." So far, that's been a good description of the bear.

Question: Russell, what do you think this bear market is all about?

Answer: Whatever is happening in the markets is seldom obvious, it rarely repeats in the same way -- and making sense out of it is never easy. I've spent many hours and days mulling over the meaning of that primary bear signal of October 15, 1987 and the crash of October 19, 1987, and I want to present a few of my thoughts.

Most of us have been programmed to think of a bear market signal (and certainly a crash) as a quick signal for recession or even worse -- depression. Aside from losses sustained during the 1987 crash, I believe that the thought that has frightened the public and kept them





from returning to the market is the fear of what the crash may have meant -- which is a recession or worse.

Of late, however, I've been thinking that the bear signal and crash may have meant something more. I believe that the shocking action of October 1987 represented a massive change in perception. But what was the perception that changed? I believe the perception that changed was one that all of us grew up accepting and believing -- that the US is the most powerful nation on earth.

I believe that the bear market signal and history's worst crash was the market's way of stating "the US has passed its peak of power." Perhaps more ominous, I think the bear signal was the market's way of telling us that the US is now (like Russia) on a declining power-path.

How can I say that? How can I dare to utter that heretical thought? Throughout history the strength (or lack thereof) of a nation could be gauged by whether that nation was accumulating or losing gold. If a nation was inflating its currency or running a trade imbalance or unable to sell its products, its trading partners would protect themselves by calling in the profligate nation's gold. In other words, gold was the "power barometer." Where gold was going told you where world power was going. We can follow this process throughout history -- from Greece to Rome, from Spain to Portugal, from Holland to Britain and to the all-powerful US during the 1940s and '50s.

But the world is now off the gold standard. A modern barometer of a nation's power is simply the value of its currency in the competitive global currency markets. For instance, we can see obvious economic weakness in the collapse of the respective currencies of Mexico, Argentina, Brazil, and Peru. And we can see increasing economic strength in the currencies of Japan, West Germany, S. Korea, and Taiwan. Only a few weeks ago we saw the change in Australia as its budget deficit ballooned and its currency dropped drastically.

And I'm sorry to say that we can see the deterioration in the US's economic position over the last four or five years as the dollar has fallen in half against the world's major hard currencies. Recently, the dollar has turned stronger, but I believe this (perhaps temporary) strength is largely a reflection of surging US interest rates (rates which make it much more attractive to hold dollar-denominated items). If the interest rate surge continues, however, the US will be thrown into recession, and a recession will hardly be taken as a sign of economic strength.

Conclusion: There has been a lot of confusion about the 1987 bear market signal and the crash and why those events have not been quickly followed by a recession -- but instead, by a business recovery. My answer is that the real meaning of the bear signal and crash have not been understood by Wall Street or the public. The real meaning of the events of 1987 will be seen in due time, and it will not be a pleasant awakening.

PRICE ACTION: Analysis is aways easier when the market backs off from an important peak. The February 8 highs of **2347.14** (Industrials) and **1087.97** (Transports) represent the peaks, so far, for the post-crash recovery. For an "all clear" signal, those highs will have to be bettered by BOTH Averages.

Meanwhile, my **PTI** has traced out a downward zig-zag (see page 2 chart), but over the last few days the PTI has again pushed toward its highs again. No question about it, the PTI continues to go up easily, while it declines reluctantly (see Late Notes on page 6). Until that process reverses, short sellers will have a tough time.

INVESTMENT POSITION: The bear remains in the box. T-bills now yield 8.9% while the yield on both the Dow and the S&P 500 is roughly 3.7%. Consider this: If stock dividends were to double, stock yields would still be only 81% of current T-bill yields. On top of that, the yield on the D-J Transportation Average (this has been the strongest of the Averages) is currently a minuscule 1.6%. Thus, the speculative Transport Average provides a yield that is only 18% of totally safe T-bill yields -- talk about over-valuation!

The great values today lie at the crest of the Treasury yield curve, and this means Treasury notes maturing in two to three years with yields above 9%.

I continue to believe that gold bullion coins (Eagles, Maple Leafs, Krugerrands, etc.) offer good value around $400 or below. Continue to accumulate them on a fixed-dollar per month basis.

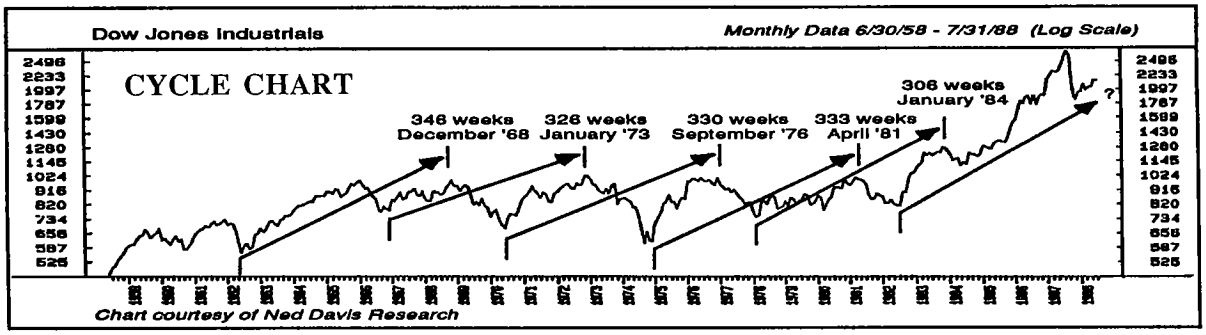
CYCLES: Do I believe in cycles of periodicity in the market? Many subscribers have asked me this question, and frankly, I have never come up with a final answer or a real conclusion. Certainly many intelligent and well-informed advisors such as Peter Eliades, Bob Prechter and Ken Gammage do believe in, and follow, cycles, but I continue to remain, well -- open-minded.

One of the most interesting tests of the cycle thesis is upon us. Back in Letter 1005 I discussed a cycle discovered by Bill Bretz. Bill writes *Juncture Recognition,* and a few months ago Bill wrote about a 306-346-week cycle, a cycle that tops 306-346 weeks from each recognized four-year cycle low. This cycle has "worked" when measured from every four-year cycle low going all the way back to1962.

In a recent report, Peter Eliades, who writes *Stockmarket Cycles,* published a chart which shows Bretz's cycle and its affect on the market very clearly. Note how extraordinarily successful this cycle has been in tracing each advance from a four-year cycle low to a time-measured top. (The accompanying chart, see top of page 3, is courtesy of Peter Eliades.)

Here's the test: If this cycle is fated to remain in force (the count began at the August 9, 1982 low) then it should trigger an important stock market top between now and March 27, 1989. March 27 will be the 346th week from the August 9, 1982 low. It is possible that the 346-week cycle is already operative and that it has identified the February Dow high of 2347.14 as the approximate top for the current 346-week cycle.

DOWPOW: For the benefit of our many new subscribers, I want to discuss DowPow briefly (figures for DowPow appear in each Letter on page 1). I'm also including an update of the long-term



DowPow chart (DowPow was last discussed in detail in Letter 1009).

For years analysts have complained that the Dow portrays too limited a sampling of the US stock market, and a blue-chip sampling at that. I wanted an index that would solve the problem, an index that would adjust the Dow in terms of "the rest of the market."

The A-D ratio is a proxy for all the stocks on the NYSE. In view of this, I decided to adjust the Dow's daily action through a formula using the daily action of the A-D ratio. The result (it's proprietary) is the indicator that I call DowPow.

What DowPow shows us is the power of the market, both on the upside and the downside. I started including DowPow in these reports during 1987, and along the way I asked computer expert John Carder if he would run DowPow back a number of years. John (who has a huge computer bank) computed DowPow back to 1970 (see accompanying chart), and I was amazed at what I saw on the long-term chart.

In the past DowPow has been subject to many dynamic swings, both up and down. Most of the swings were actually greater than comparable moves in the Dow alone. For instance, note the disastrous 1972-74 collapse in DowPow as well as the violent and very profitable rise from 1974 to '76. During 1976 to 1982 (although the Dow moved generally sideways) DowPow slumped -- and so did most stock portfolios. During 1982 to 1984 DowPow exploded upward (in a hugely profitable move for most investors). Again during late-1984 to 1987 DowPow surged to new record highs.

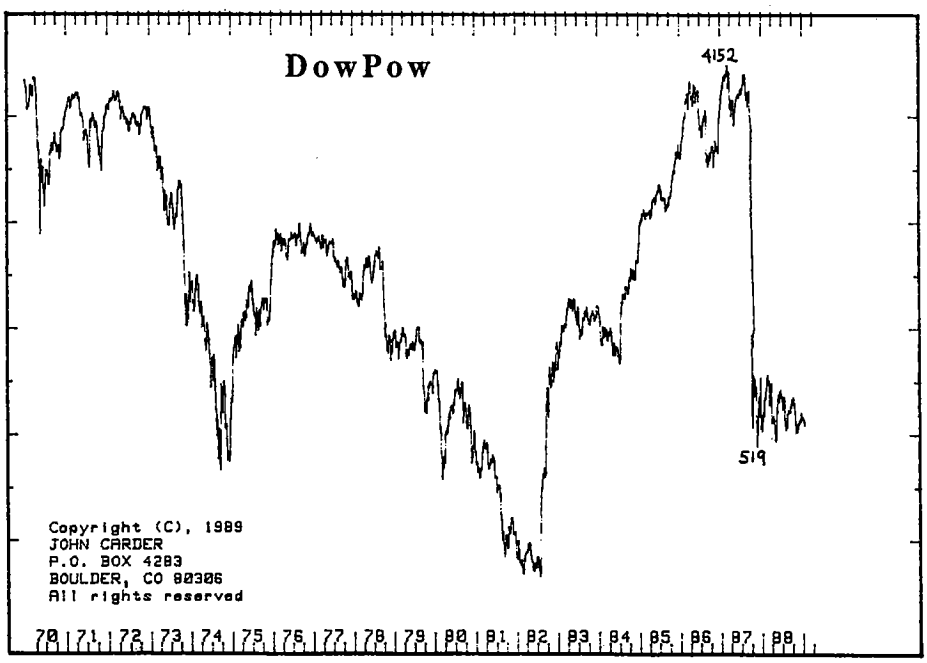
Then came the crash. DowPow collapsed from a 1987 high of 4152 to a low of 519. Note that the low of 519 was recorded, not at the Dow crash low of October 19 (at which time DowPow was 848) -- but two months later on December 22 (at which time DowPow sank to 519).

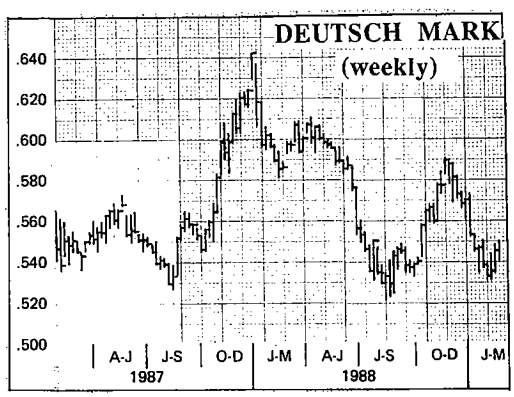
Now comes the fascinating part. Following the December 1987 low DowPow has refused to break out on the upside. In fact, since the crash DowPow has been fluctuating within a band bordered by the 519 low of December 1987 on the downside and the March 1988 high of 1116 on the upside.

Question: Why hasn't DowPow rallied strongly as it did during 1982-84 or during 1984-87? Answer : There hasn't been enough power in the A-D ratio and the majority of market issues to really move DowPow. Since the crash low, as the Dow is adjusted for A-D action, the result has been the strange, weak action that we see on the chart.

Conclusion: I believe DowPow's performance is highly significant. I think that DowPow is pointing to an underlying weakness in this whole post-crash rise. If the strong Dow recovery can't move DowPow up, one has to wonder what will happen when the Dow turns decisively down. When that happens logic suggests that DowPow will be hit hard. Such action will impact the great majority of stocks on the NYSE.

BONDS, CURRENCIES: With interest rates rising in the US (and throughout the world for that matter), the dollar has remained relatively stable (no thanks to our continuing rotten trade balance). Many leading economists are saying that the dollar will have to sink even lower before we can boost exports enough to help our trade balance (100 yen to the dollar is the usual figure). But so far a dollar that has been halved (against leading currencies) over the past five years hasn't helped exports enough and a still lower dollar might not do the trick either. A still-lower dollar would make trips overseas absurdly expensive. A lower buck would also make US

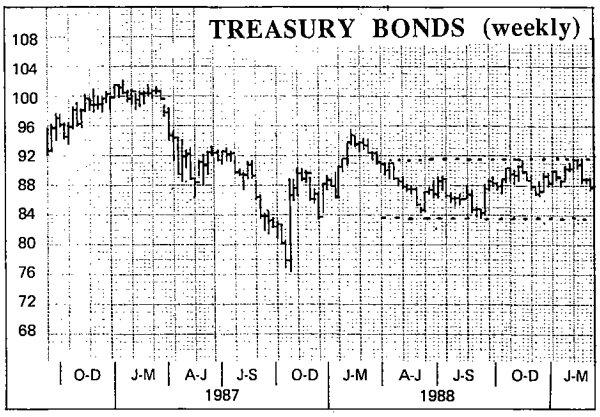




corporations an even greater bargain for foreign takeover-specialists.

Meanwhile, the weekly Treasury Bond chart (page 4) shows the bonds in an extended trading range. Inflation fears and sharply higher short-term rates don't seem to frighten bondholders. Why? The answer probably is that

bondholders see future deflation as more of a threat than present inflation (both charts courtesy of *Dunn & Hargitt).*



NOTICE: We offer two loose-leaf chart albums, which I have found invaluable in my own market studies. The first is an album covering the D-J Averages (Industrials, Transports, Utilities, Bonds) DAILY from 1885 to through 1988 -- one 11x17-inch page for EACH year. Notations of important events appear on each page so that you can see how the news of the day affected the market. Price for this unique album is $135.

The second album traces the advance-decline ratio (DAILY) along with the Dow from 1931 through 1988. Price is $95. If you are interested in these albums, please make checks payable to Richard Russell. We pay the postage inside the United States. Foreign postage, however, is extra (add $35 per book) and please make the checks in US funds payable on a US bank.

New pages are published each year, at a price of $3 per page. The 1988 pages are now ready and those who have ordered these pages should receive them immediately.

FROM ST. MORITZ: Here is the latest report just received (via Fax) from Julian Snyder, a man who Harry Schultz terms "not just bright -- but brilliant." Julian's reports are doubly interesting to me since they represent an international viewpoint (Julian has lived in Switzerland for many years). *Dow Theory Letters* is now the only source for Julian Snyder's comments, and I urge readers to study the following carefully.

"Dick, on the best information I can get I see no recession this year despite the 'three-step-and-stumble' rule. The Fed simply won't squeeze hard enough soon enough. I think the real interest rates will have to parallel 1929, which means the discount rate will have to move into double digit territory to bring on a slump. What everyone, including this writer, tended to forget is that the debts of the world are being depreciated at a fairly rapid rate via inflation. At a 5% annual inflation rate any debt will be cut in half in real terms in 14 years. At a 10% rate, which the US could probably stand, debts are halved in only about seven years. Yet I don't see runaway inflation. This is because of where we are in the Economic Long Wave. You don't have to believe in the Elliott Wave Theory as a theory to get its common sense implications: debts are too heavy, demand is too sluggish, and basic industrial capacity is too overextended to create a real price blow-off as per the 1970s. Yet I think inflation will create enough of a scare to get the Fed to keep on squeezing to protect bondholders. Finally, in my view it will be an extremely tough period for gold lovers since the prognosis is for gold to rise a bit over the next few months -- then plunge on what is likely to be a genuine deflationary breakdown, eventually rallying when the dollar falls and the Fed begins to print money in classic style.

The basic point here is that I think what the crash of 1987 was telling us is that the manipulated economy of the post-World War II period is over. On the next version of 1974 or 1982 we'll either get a genuine deflation or hyper-inflation -- or both in sequence. As far as the stock market is concerned, I think it will keep on rallying, even after the next discount rate hike, confounding many experts, and I think I smell an attack on the old highs. But I think Russell is the man to listen to as far as this action is concerned.

I am sitting comfortable on the sidelines in short-term British Pounds, taking the interest. I like Sterling because it is not a direct part of the confrontation between the dollar and the so-called hard currencies. I will get out of Sterling when it looks like the UK is going into a slump. Always remember that the main headlines about debt and the state of the economy are basically written by Fed economists, and they have an ax to grind. Basically we live in an inflationary society in which most of the numbers are as funny as the money." Julian Snyder.

NOTES & QUOTES: Deceit, subterfuge and dishonesty on the federal budget continue. The big Social Security surplus remains "on-budget" while the massive S&L deficits are "off-budget." Honesty would dictate the exact reverse. The true federal budget deficit for 1989-90 will be well over $200 billion.

* *

If you're really interested in what's happening in your government, you can study total US debt. Last year it was $2.448 trillion; this year it is $2.699 trillion. That's a jump of $251 billion or a rise in debt of $4.8 billion A WEEK! Talk about fiscal insanity!

* *

A huge lit-up sign ("the National Debt Clock") in Times Square in NYC ticks off the latest debt figures on a second-by-second basis for all to see. As of a few days ago the debt total was $2.729 trillion. Gee, it seems like only yesterday it was a mere trillion.

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The British are now being hit by the fastest mortgage rate rise in half a century -- from 9.75% last summer to the current 13.5%. Inflation just rose to 6.3% in Britain, and Margaret Thatcher says that interest rates are her weapon. In the meantime, the crunch is causing Englishmen to forego buying houses while turning to renting.

* *

After years of semi-depression, farm land prices in the US are heading sharply higher. In Nebraska average farm prices (per acre) in '89 are up 43% from their 1987 low, in S. Dakota they are up 43%, in Minnesota they are up 47%, in Kansas they're up 33%, in Iowa up 45%.

* *

Sign of the Times Dept: From the March *Harper's Bazaar:* "The best possible place to meet a man today is at your local blood bank. Any fellow with blood acceptable to donations is a catch. Don't even think about singles bars, which are now reserved solely for people who enjoy playing Russian Roulette with a fully loaded gun."

* *

Ann Rule, former Seattle policewoman, is an expert on serial killers. Here are a few of her comments from a fascinating *USA Today* interview: "They don't think about anybody else hurting. They assume that they're special, they're privileged, they're different than we are. . . . Each killer seems to have a certain victim type. They're women, children, elderly, homosexuals. I have yet to to find a serial killer who stalked football players or wrestlers. They want someone they can physically control. They have developed a sixth sense so that they become experts in victimology. . . . I went back through all of Bundy's victims, and every one of those girls was having a bad day. She was either running away from home or had a fight with her husband or had the flu or wasn't wearing her glasses. Ted knew that he could get those girls off balance and get them away to a place where, if they screamed, nobody would help them."

Russell comment: I took the mace course from a sergeant on the San Diego SWAT team. He advised, "If a guy holds a gun on me and tells me to get in the car, I don't move. If he's going to shoot me, he shoots me there -- not in a place of his convenience. As soon as you follow a bad guy's directions, he's got control. That's the last thing I want to give him. If he's going to shoot me, he shoots me where I am, not at a place of his chosing."

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The Duke's "Massachusetts Miracle" has faded. Governor Dukakis is now asking state residents for $735 million in additional taxes. A recent poll shows that Dukakis's popularity rating is the lowest since he took office.

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I'm convinced that Daniel Burstein (author of the book, *Yen*) is telling the unvarnished truth about the US and Japan. It isn't a happy

story. Burstein wrote a letter that was published in the *New York Times*. I think it is vital that my readers understand what was in that letter, and some of it is included here:

THE formidable chairman of Nomura Securities International, Masaaki Kurokawa, was expressing skepticism in a conversation about whether American political leaders would take action on the trade and budget deficits. The badly needed solutions, he said, might have to come from Japan.

The fact that a leading Japanese financier thinks along such lines is but one example of how a newly assertive Tokyo is trying to cope with managing wealth obtained from 40 years of hard work, multiplied by the sudden new infusion of riches brought about by Reaganomics.

Washington's four-year-old effort to achieve American trade competitiveness by driving down the dollar against major currencies has obtained a modest improvement in the trade deficit. But the price paid for devaluing the dollar from more than 250 yen in early 1985 to around 125 today is astounding. The United States has effectively halved the value of every dollar-denominated American asset and doubled the value of every Japanese yen-denominated asset. The entire structure of world wealth has been reconfigured in the process, much to the benefit of an already ascendant Japan.

This process helped beget the new realities that are clearly evidenced by even a cursory reading of any daily newspaper: The world's 10n largest banks are Japanese. The United States Treasury is ominously dependent on Japanese investors to finance deficit spending. Once considered "stingy," Japan is emerging as the world's biggest donor of foreign aid. And the "pacifist" Japanese are suddenly the world's third-largest military spender.

Perhaps most significant, the vast surplus of dollars that washes into Japan with each month's United States trade deficit is not washing back out to buy American goods. Instead, Japanese business interests are embarked on a strategic series of acquisitions which will give them a powerful — and even a dominant — ownership interest in key sectors of the American economy. On the reciprocal side of the coin, American business is nowhere near as free to buy stakes in the Japanese economy. Even if Japanese law and business culture were to change overnight, few dollar-based American investors would now have the wherewithal to absorb the cost of buying a major company in a yen-based economy.

Shockingly, the Bush Administration appears ready to let the dollar continue its decline. One of President Bush's longstanding mentors on economic matters, Harvard University's Martin Feldstein, intimates that another 10 to 20 percent devaluation is desirable. Treasury Secretary Brady, presented with the opportunity to mount a strong defense of the dollar

Advocates of a lower dollar base their case on econometric modeling showing how a weaker dollar makes American goods more competitive abroad and foreign goods less so at home. But several years of experience now make clear what should have been obvious from the beginning: The world we live in doesn not much resemble the model. And while the American economy nears the end of what limited competitive kick can be achieved from a devalued dollar, the rampaging Japanese export machine has recently shown signs of once again widening its massive global trade surplus.

In Washington, the hope remains alive every time the dollar drops another few yen, another few marks, and now even another few Korean won, that the invisible hand will slice away a commensurate portion of the trade deficit. Such hope is necessary to avoid what remains ideological anathema: the need to reach deeply into the soul of the American economy with policy initiatives that encourage the structural changes mandatory for a competitive future.

WITH the Reagan years ended, ironies abound. One of the most remarkable concerns the President who never missed an opportunity to criticize the high cost and inefficiency of Government programs. Even in his farewell press conference, he cited a "factoid" about an unnamed Government program that had once cost taxpayers $2 for each $1 of benefit delivered.

This same Ronald Reagan presided over what can be deemed the costliest, least efficient Government program of all time. For the political expedience of a small improvement in the trade deficit, his Administration was willing to surrender trillions of dollars in the global value of American assets. The President whose stated mission — and widely perceived accomplishment — was to make America strong again, made us far weaker vis-à-vis the Japanese. What's more, the Administration that was so overtly cognizant of the connection between wealth and power in American domestic life didn't seem to notice that as it transferred wealth to Japan by driving up the yen, it was also transferring power.

But the think tank behind Mr. Kurokawa of Nomura is rather blunt about what we will face in the next few years: "The United States will have to follow a set of austerity measures similar, in some sense, to those imposed by the I.M.F. on debt-ridden countries."

Welcome to the 1990's — the decade when Americans are likely to pay the price for the great U.S.-Japan role reversal spurred on by the Reaganomic 1980's.

* *

I just heard about a nightclub in Japan that has a $35 per person cover charge. But who knows, New York may not be far behind. A consortium of NY developers and architects plus Tokyo financiers and Hong Kong hoteliers will build a 46-story 400-room hotel on 57th St. in New York to be named The Regent. Rooms in the new hotel will start at $400, highest rates in the City. Complained Donald Trump who recently bought the landmark Plaza for $410 million, "The problem is that everybody is either buying or building a hotel these days, and everybody claims his is great." Russell Prediction: Fat prices are being paid for luxury hotels in NYC and elsewhere. Most of these hotels are figured at high-occupancy and high room prices. Comes the next major recession and you can expect to see many luxury hotels go belly-up. In rough times, the easiest thing in the world to do is to skip expensive dinners and high-priced hotels.

* *

Scott Peck's (originally unheralded) book, *"The Road Less Traveled,"* has been on the *NY Times'* best seller-soft cover book list for an unbelievable five years in a row. It's a fine book, and I have recommended it repeatedly.

* *

The personal ads at the back of *New York* magazine tend to be literary, high-toned, and fascinating. The ads cost $29 per line, and some of these ads run to well over $1,000 -- so you know the authors are serious. Want to marry a millionaire, a Hollywood look-alike? They're all here (so the ads say). Below are just a few examples from a recent issue.

* *

Are You A Kinder, Gentler Man?— Slender blond media person, 5'7", seeks bright, attractive, successful executive/professional, 34-48, with slightly silly sense of humor - for travel, theater, dancing and quiet times. Photo appreciated. NYM F732

A Vegetarian With Animal Magnetism— 42, 6' tall, AB, MS, MD, PhD, who is divorced, two teen-age children, Hudson Valley estate, married to my career, limited quality time for one woman, New York, travel. NYM N477

Lively, Witty, Attractive—Fun-loving, recently divorced woman in mid 40's, with a great sense of elan, looking for a man between the ages of 45-55, with brains, breeding and a possible beard. NYM F821

Find La Dolce Vita—Gorgeous blond painter, chef, bodybuilder, Ivy grad seeks wonderful, intelligent, tall, athletic man (30-45) for a "Roman Holiday". Photo/phone. NYM L015

Well-Packaged—Slim, intelligent NYC woman of taste, earthy sophistication, wants to light up serious, refined, underloved male's life, 60-70. Active, educated with sturdy brain, body and open, giving soul, he seeks a vital woman of many hats. Imperfect, okay. NYM N497

I'll Stop You In Your Tracks!— Sensational, slender, successful, sexy, 5'8" redhead, beautiful, athletic and fit, with a great body and personality to match - president of a successful ad agency, bright and cultured with tremendous energy for work and play. If you are a very successful, very charming, very handsome and very dynamic male between 38 and 52, I'm your match. Photo, please. NYM D288

Millionaire—35, handsome, seeks lady in her 20's who is extremely attractive and down-to-earth. Photo please. NYM C014

* *

The Consumer Price Index jumped to an annualized rate of 7.5% in January, but San Diego has known about rising inflation all along. The average price of a single family home in SD jumped a whopping 11% in January to $202,240, up an astounding 30% from January 1988.

Talk about inflation, the "feeding frenzy" in art continues. During 1988 the two auction houses, Christie's and Sotheby's, did a total of $3.2 billion in sales. As a point of interest, back in the '40s I was a student at New York's famous Art Student's League. I used to go to the Museum of Modern Art (you stand in line to get in there now), and often I would be one of maybe a dozen people in the entire Museum. During the '70s and '80s when art got to be "big bucks," the public became interested and "art appreciation" exploded. So it goes.

* *

The luxury super-priced car is losing clout as a status symbol, and this is particularly true since expensive cars are high-profile and invite crime (in LA criminals have taken to following ladies with big Mercedes home, then holding them up as they drive into their garages). Sales of all expensive imports are now sliding in the US and this includes Jaguar, Mercedes, BMW, Volvo, Saab, and Porsche.

* *

If you're thinking of starting a diaper or baby food business, forget it. Instead, think wheel chairs or canes. America is getting older. In 1970 the percentage of the US population over 65 was 9.8%. In 1980 it was 11.3%. By 1990 it will be 12.6%. By the year 2030 experts figure the over-65 population will be above 20%. During the same period the 5-17 age population will drop from 25.7% to 14.6%.

* *

Today 21 nations have reasonably important stock exchanges, some overpriced and some reasonable. Top total values of stocks listed are: Japan with $3.5 trillion; US at $2.6 trillion; UK at $572 billion;

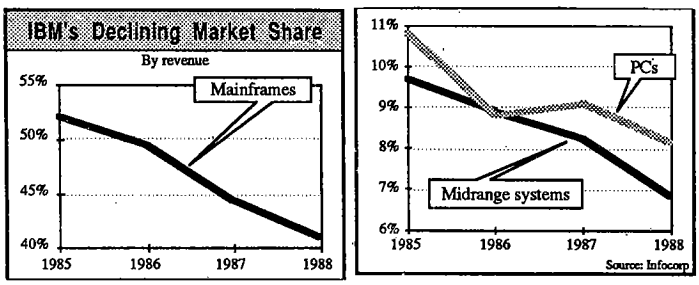
Canada at $255 billion; W. Germany $240 billion; France $235 billion; Australia $199 billion; Singapore $146 billion; Switzerland $140 billion. Highest P/E ratio for stocks is Japan at 56; Malaysia at 26; Spain at 20; Singapore at 15. Lowest P/E is Norway at 6; Australia at 9; New Zealand at 10; Canada at 11.

* *

America is fascinated by its two "glamour-millionaires," Donald Trump and Malcolm Forbes. Forbes, about to turn 70, is being feted by his sons with a massive birthday party at his fantasy Tangiers palace. A reputed 400 guests will be flown in for the gala event. Said son Tim, "You only turn 70 once. We wanted to something significant." Speaking of Forbes, you have to give the magazine credit. Despite editor Malcolm Jr.'s perpetual bullishness, the mag does feature Ashby Bladen's ominously bearish column. Bladen expects runaway inflation to be the US's ultimate fate. His latest column is entitled, "Welcome to the Third World, Uncle Sam."

* *

Fans of "Big Blue," arguably the bellwether of the NYSE, wonder why IBM can't get out of its own way (pricewise). These charts (courtesy of *Investor's Daily)* tell most of the story.

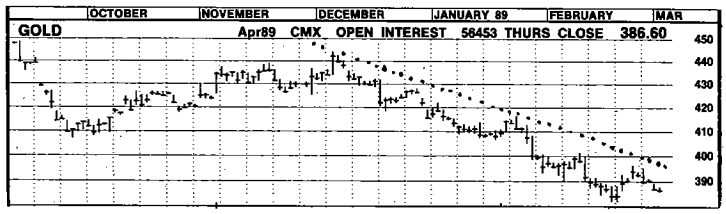


GOLD, OIL: People understand oil. They heat their homes with it, they lubricate their cars with it, they drive their cars with an oil distillate (gasoline).

Most people don't understand gold, and they seldom see it (except in jewelry). Gold is real money. Gold doesn't disappear the way (historically) paper currency does. In other words, in terms of decades or centuries, gold is "safe," whereas every paper currency in history has eventually disappeared.

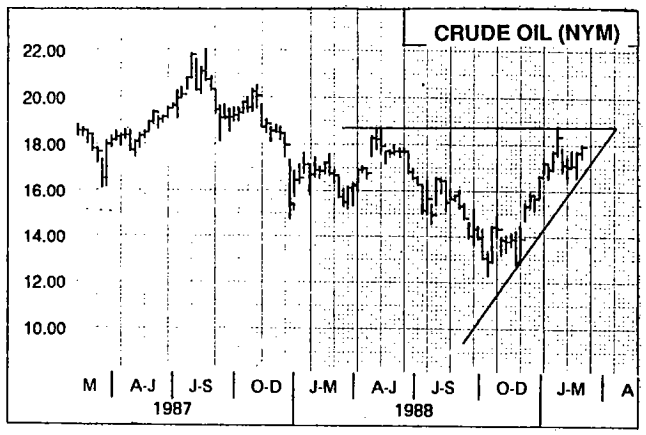
All paper currencies fluctuate in value against gold. For the safety of owning real money, one sacrifices interest or the return on the investment. When interest rates are high (as now) there's a special sacrifice in owning gold, and this sacrifice exerts current pressure on gold. It also makes gold "cheap" in terms of recent history.

Why own any gold? Here's why. The world is awash in debt. Ultimately a recession is going to hit (probably globally). When this happens the pressure on debt-ridden companies to survive will be intense. There will be much pain and many bankruptcies. Governments will then do everything they can to turn the tide and "refloat" their economies (as witness the current S&L bailouts). To do this central banks will have to resort to inflation -- a massive increase in the money supply. When that happens it is possible (probable) that all paper currencies will decline against gold. That is one major reason for accumulating gold now.



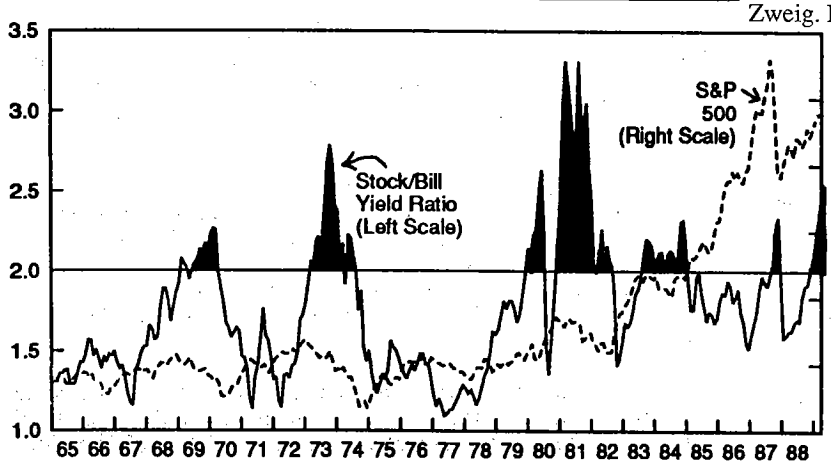
The chart (courtesy of *Investor's Daily*) shows the April gold contract traveling below a declining trendline. For an upside reversal, April gold will have to rise to around 400.

In the meantime, this weekly chart (courtesy of *Dunn & Hargitt*) shows crude oil ("black gold") in a rather powerful formation. Despite myriad predictions of OPEC's demise, the oil fraternity seem to be "getting their act together" again. Consequenty, the price of oil pushes higher. A move in crude above 19 would push it out of the big triangle formation it has now formed. If that happens, crude could easily attack its 1987 high of 22. Of course, current rising oil prices hardly help the inflation figures.



LATE NOTES: Here's a chart showing the ratio of the yield on the broad S&P 500 Average to the yield on 91-day T-bills. Note that in the past, when the T-bill yield was double or more than double the yield on the S&P, the market ran into trouble. At present the bill yield is 8.9%, the S&P yield is 3.7% and the ratio is 2.4. So be advised that we're now in the danger zone (chart courtesy of *Salomon Bros.*).

My **PTI**, following what could have been a significant decline, turned up and hit a new high of 2920 on March 3. Don't expect trouble until the PTI traces out a definite declining trend. To make matters more confusing, **DowPow** has been going nowhere. In the past all powerful and profitable advances have been accompanied by major rises in DowPow. But note on the page 3 chart that during 1988-89 DowPow has been unbelievably resistant to advance.



Last week we had dinner with old friends, Molly and Marty Zweig. Marty takes his market work very seriously and used to be a world-class worrier (he's much better now). At dinner we didn't talk about the market. But next day Marty's latest *Zweig Forcast* arrived. Marty writes that currently the yield curve is flat and on top of that there have been three boosts in the discount rate. He adds "for the first time in about seven years monetary conditions have become hostile. Indeed, our Monetary Model is in a mode now in which the S&P since 1965 has declined at an annualized rate of 14.5%." If the current flat yield curve "firmly inverts," Marty adds, his model will project "an annualized loss of 25.7%." He concludes with this warning, "Don't fight the Fed."

P.S. Saw "True Believer." One heck of a movie, don't miss it. James Woods, as usual, is great.

NEXT MAILING: March 22